1975 LOCHIEL EXPLORATION LTD. ANNUAL REPORT

DRILLING AND EXPLORATION STATISTICS

10 YEAR PERIOD 1966 - 1975

Total number of wells drilled	94	(100%)
Which were completed as:		
Gas Wells	54	(58%)
Oil Wells	19	(20%)
Susp. Wells	2	(2%)
Dry Holes	19	(20%)

Mainland Canada

Total expenditures $4,587,000

	Crude Oil (bbls.)	Natural Gas (cubic feet)	Undiscounted Value - $
Total reserves found	1.3 million	31.8 billion	$25.8 million
Production to date	.1 million	12.6 billion	4.1 million
Remaining reserves	1.2 million	19.2 billion	$21.7 million

Remaining Unexplored .... 70,000 net acres

Canadian Frontiers (Arctic, East Coast)

Total expenditures $688,000

Estimated Reserves up to 2 trillion cubic feet of natural gas net to Lochiel.

Remaining Unexplored .... 2.3 million net acres

International (Europe, Africa, Asia)

Total expenditures $825,000

Estimated Reserves in North Sea up to 7 million barrels of oil net to Lochiel.

Remaining Unexplored .... 129,000 net acres

ACREAGE HOLDINGS

AS AT JANUARY 31, 1976

	Working Interest		Royalty
CANADA	Gross Acres	Net Acres	Gross Acres
Alberta	132,343	46,080	94,280
British Columbia	1,402	1,402	—
Saskatchewan	10,866	10,866	—
Arctic Islands	1,202,736	1,026,877	1,873,444
Beaufort Sea/ MacKenzie Delta	—	—	1,723,879
Northwest Territories	—	—	162,184
Yukon Territory	—	—	385,608
Pacific Offshore	—	—	243,386
Eastcoast Offshore	1,042,468	904,824	163,307
INTERNATIONAL			
North Sea (U.K.)	115,000	1,150	—
Italy	92,617	3,705	—
Turkey	122,932	104,492	—
Ghana	138,880	22,683	—
	2,859,244	2,122,079	4,646,088
Comparative holdings January 31, 1975	7,880,619	5,553,855	4,125,747

TO THE SHAREHOLDERS:

This year has been a turning point for your company. For the first time in Lochiel's history, oil and gas sales for the year exceeded $1 million. Since our efforts to establish long term reserves have been successful, our major corporate goal for the short term will be to substantially increase our cash flow.

We have included a chart in this report containing a summary of our operations during the past 10 years. It is interesting to note that Lochiel spent a total of $6 million during the period 1966 to 1975 of which $4.5 million was spent in Canada drilling 94 wells resulting in 73 oil and gas wells for a 78% success ratio. At the same time Lochiel made some significant acquisitions in the frontier areas of Canada at a cost of $688,000.(11% of total). Our Arctic gas reserves lie in this area. Outlays for our international operations amounted to $825,000 which represented 14% of total expenditures and thus far has resulted in an oil discovery in the North Sea.

These statistics indicate that Lochiel's operations are fairly well balanced in so far as short and long term projects are concerned. We believe that in addition to reserves which provide immediate cash flow, the viability of a natural resource company such as Lochiel depends to a large extent on having interests in areas with large long term reserve potential.

Lochiel has excellent holdings in long term areas such as the North Sea, Arctic Islands, Beaufort Sea, and the East Coast. We were fortunate in acquiring these holdings when we did, because it would be more difficult, as well as much more costly, to acquire them now. In fact, it would be almost impossible for a junior company to obtain such properties today.

In the past year the delineation of the Buchan oil field in the North Sea was substantially completed. This field, in which Lochiel has a 1% working interest, will probably go into production in the next 3 or 4 years. There are more seismic features of similar type and magnitude to be drilled on Lochiel's holdings in this area.

The recent Panarctic gas discovery at Jackson Bay in the High Arctic further enhances the value of Lochiel's 280,000 acre block in the King Christian Island area, which is almost surrounded with discoveries. A detailed seismic survey indicates at least three drillable structures similar to Jackson Bay on our acreage. These structures are estimated to contain in the vicinity of one trillion cubic feet of natural gas each.

We feel that the company has the potential of generating a tremendous cash flow from sales of Arctic gas in the future, since Lochiel owns a 3% gross overriding royalty interest in the King Christian block, with the option to convert this royalty to a 12% working interest as soon as the first production is sold. The advance in technology which now premits the development of a gas field in water depths of 1,000 feet or more by utilizing ice platforms was demonstrated at Jackson Bay and Hecla. It is expected that gas from the High Arctic will be flowing to Toronto by the early 1980's.

A third long-term asset, although not yet in the proven category, is the large uranium prospect at Baker Lake in the Northwest Territories, where Cominco's exploration program continues with much encouragement. Lochiel holds a 8.6% interest in the 1.5 million acre property.

Because of the strength of our long-term reserves and large properties, management's philosophy for the next few years will be to increase immediate cash returns, while waiting for the long-term reserves to come on stream. A recent independent engineering evaluation indicated that Lochiel's proven and probably oil and gas reserves, now on production, could yield more than $21.7 million of cash flow during the next 20 years.

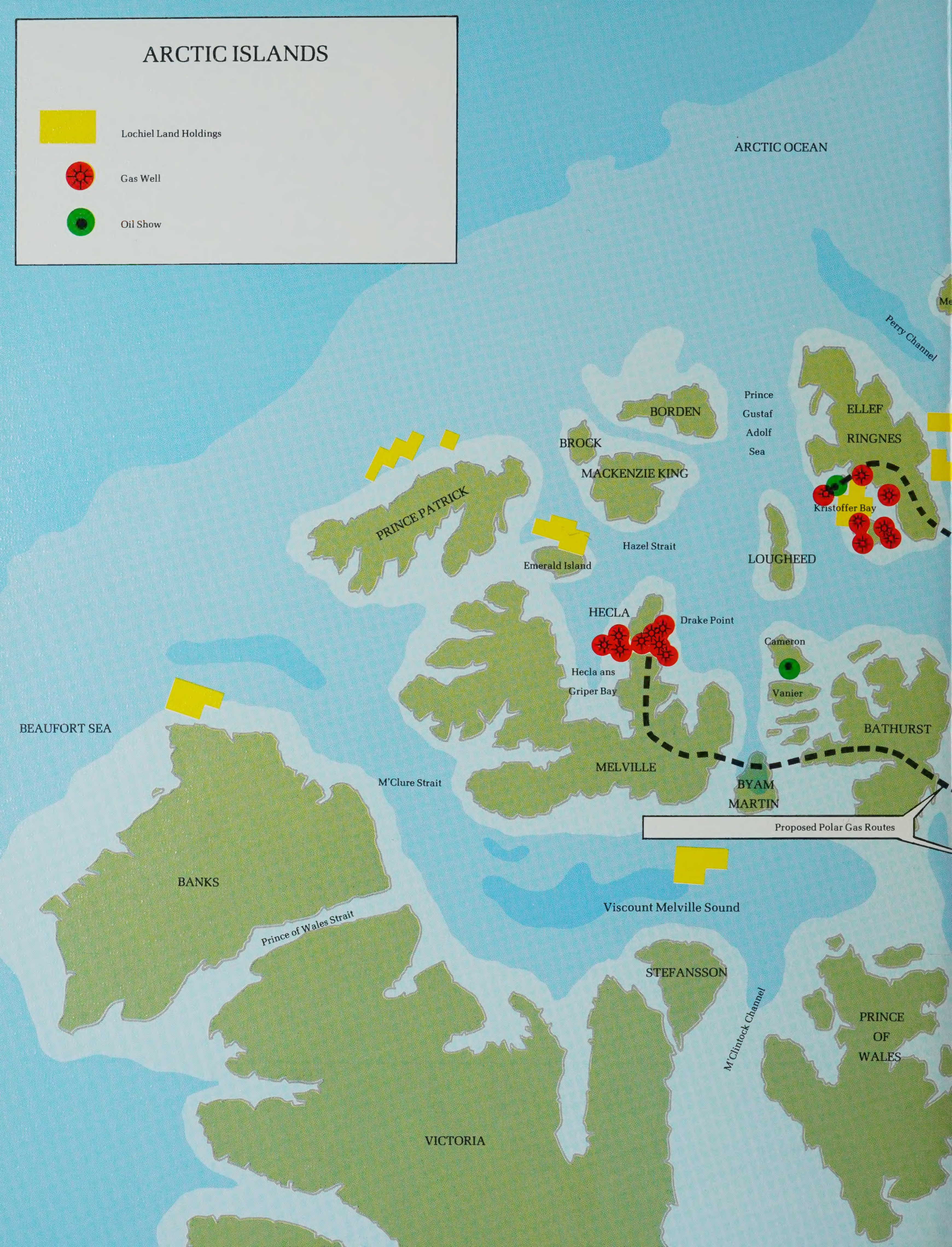
The company has established a line of credit with its bankers which will add almost $1 million to its operating funds. On the strength of its increased working capital, Lochiel is proceeding immediately with the development of other horizons in the Atlee Buffalo area in southern Alberta, from which the company presently derives the bulk of its gas production. We also intend to develop offset production in other areas of Alberta on land holdings acquired during the last few years. With a bit of luck, and aggressive development work, we should be able to increase our cash flow substantially during the next two to three years, before large frontier reserves come into production.

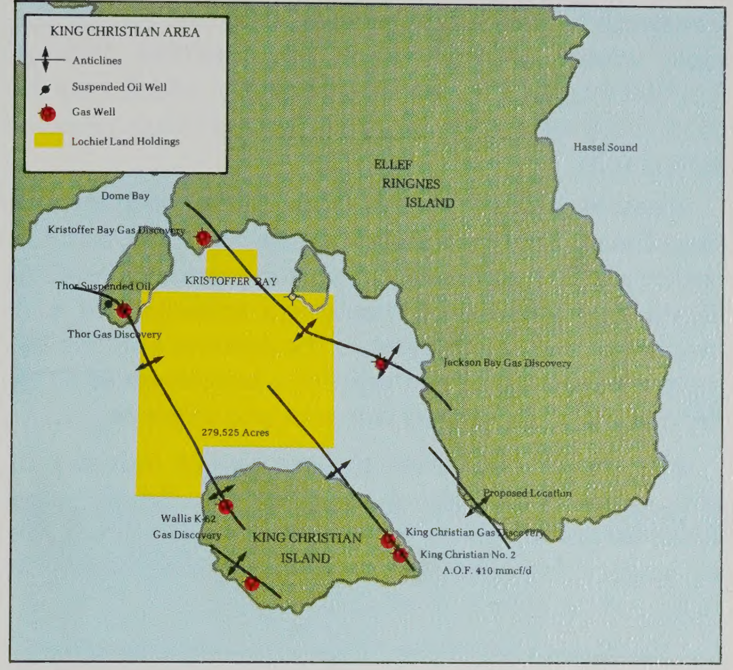
It is gratifying to note that governments now at last seem to realize that oil and gas cannot be produced out of thin air. They now take increasingly aggressive action through tax incentives and guaranteed prices in order to foster the goal of self sufficiency in energy for Canada. This bodes well for a Canadian owned independent like Lochiel.

On behalf of the Board

N. W. TAYLOR
President

May 25, 1976


ARCTIC ISLANDS
Lochiel Land Holdings
Gas Well
Oil Show
ARCTIC OCEAN
Perry Channel
Prince Gustaf Adolf Sea
BORDEN
ELLEF RINGNES
BROCK
MACKENZIE KING
PRINCE PATRICK
Kristoffer Bay
Hazel Strait
Emerald Island
LOUGHEED
HECLA
Drake Point
Cameron
Hecla ans Griper Bay
Vanier
BEAUFORT SEA
BATHURST
MELVILLE
M'Clure Strait
BYAM MARTIN
Proposed Polar Gas Routes
BANKS
Viscount Melville Sound
Prince of Wales Strait
STEFANSSON
M'Clintock Channel
PRINCE OF WALES
VICTORIA



EXPLORATION REVIEW

ARCTIC ISLANDS

The current exploration season is producing very satisfactory results. Panarctic has scored its first major oil discovery at Bent Horn on Cameron Island. A second well drilled this winter tested crude oil at an average 5,300 barrels per day, with short flow periods of up to 30,000 barrels per day. At the Hecla gas field on the Sabine Peninsula, Panarctic drilled and completed several tests from offshore ice platforms which have extended this field several miles westward and added significant gas reserves from two new pay zones. The Arctic Islands Offshore Group is conducting a three year, $42 million, seismic program. Two successful seasons of work have been completed so far.

Of particular significance to Lochiel is Panarctic's offshore gas discovery at Jackson Bay northeast of King Christian Island. This iceplatform test was drilled in 200 feet of water and is located approximately 5 miles east of Lochiel's 280,000 acre block. The well hit a pay sand section 583 feet thick at a depth of 4,600 feet, with estimated reserves in excess of one trillion cubic feet of natural gas.

This latest discovery bodes well for the presence of gas reserves on Lochiel's adjacent acreage, which is now totally surrounded by gas discoveries at King Christian Island and Ellef Ringnes Island. The Jackson Bay test is the first offshore wildcat drilled from an iceplatform in the Arctic Islands. Expertise gained at Jackson Bay will be of significant value to the development of Lochiel's block, operated by the Sun Oil group, who

conducted a delineation seismic program during the past winter in preparation for eventual drilling. Lochiel owns a 3% overriding royalty, which may be converted to a 12% working interest after production is sold.

Elsewhere in the Arctic Islands the company has negotiated another joint venture with the Sun Oil group on 833,000 acres of permits in the Sverdrup Basin. Sun Oil will be spending a minimum of $1.7 million to earn an interest in the permits and has the option to increase its interest to a maximum of 65 % by drilling wells at their sole cost and expense.

Exploration successes to date by the industry in the Arctic and exciting prospects on the drawing boards promise to bring threshold reserves necessary for construction of a pipeline from the high Arctic closer to reality.

The Polar Gas Project, a joint venture to build a natural gas pipeline from the Arctic Islands to southern markets, expects to submit an application to the National Energy Board early in 1977, if sufficient gas reserves are established by that time. Research and design work carried out since 1973 has shown that a gas pipeline from the Arctic Islands is technically and environmentally feasible. Economic analysis of transportation costs indicates that Arctic gas will be competitive in price with gas from Western Canada.

BEAUFORT SEA/MACKENZIE DELTA

Exploratory activity in the Mackenzie Delta continued with several new successes onshore and from drilling islands in shallow waters. Exploration of the offshore Beaufort Sea immediately north of the Mackenzie Delta was stepped up considerably with the development of the Dome/CANMAR drilling systems. These consist of two ice-strengthened drillships, four icebreaker supply boats and associated barges and shore facilities. The vessels are capable of drilling in waters of 70 - 1,000 foot depths and will commence drilling this summer. The drilling season is limited to 120 days, and it is expected that two wells will be completed in the first season at a cost of $25 million each. One of the tests will be located less than 20 miles from a parcel of

600,000 acres in which Lochiel owns overriding royalty and net carried working interests. All told, Lochiel has similar interests in a total of 1.7 million acres in this area.

The Beaufort Sea has excellent hydrocarbon potential. The main targets are sedimentary rocks of tertiary age, which worldwide contain more than 65% of the world's hydrocarbon reserves. The only areas of Canada with tertiary sediments are the Beaufort Sea and offshore east and west coasts. Sedimentary rocks in the Beaufort Sea reach to a depth of 45,000 feet and have thicknesses from 12,000 to 16,000 feet.

Seismic surveys covering more than 25,000 miles have been carried out in this area. Records indicate the presence of large and varied structures. The existence of a favourable sedimentary basin, large structures providing excellent trapping conditions, and oil and gas finds in the nearby onshore area, point to the conclusion that the Beaufort Sea offers the best undrilled hydrocarbon potential on this continent. Estimates of reserves in this basin range up to 40 billion barrels of recoverable oil and 320 trillion cubic feet of natural gas, more than five times the remaining recoverable reserves in the southern regions of Canada.

ATLANTIC

Only eleven wells have so far been drilled off the coast of Labrador. The results have been very encouraging as most of the tests encountered good reservoir possibilities. In 1974 the Bjarni and Gudrid tests resulted in natural gas discoveries. The Snorri and Karlsefni tests drilled during 1975 were reported to have encountered encouraging oil shows. Testing at these locations will take place during 1976. It is reported that the Total group will be drilling a well later this year offshore Greenland, which should provide interesting information for Canadian operators offshore Baffin Island.

Lochiel has varying interests in 1.2 million acres and has been able to maintain holdings over a widespread area of the Atlantic shelf at a nominal cost. The company holds a 75% interest in 550,000 acres located 30 miles east of the Gudrid discovery and plans to farm out part of its interest.

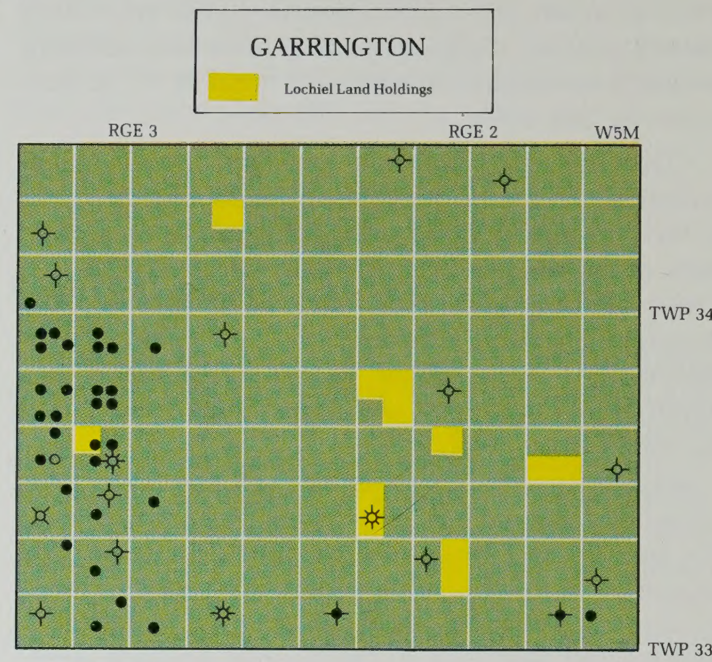
ALBERTA

Sedalia [East Central Alberta]

The company has a 66⅔% interest in 2,560 acres in this area, on which an unsuccessful well was drilled during 1975 at no cost to Lochiel. Drilling activity and successes nearby may warrant another test on this acreage.

Garrington [West Central Alberta]

During the year the company negotiated a farmout on this 100%-owned lease consisting of 160 acres. The farmee drilled a successful oil and gas discovery which was completed and placed on production in November. Lochiel received a $200,000 production prepayment, which is expected to be earned by early 1977, after which time the company's share will be 50% of the production proceeds. Production from this well currently averages 75 barrels of oil and 540 MCF of gas per day.



Atlee Buffalo [South Eastern Alberta]

A recent review of this major producing area suggests that excellent prospects exist to increase the company's reserves in different horizons from those presently producing. This area is characterized by multi-zone production and will be further evaluated by drilling in 1976.

Eaglesham [Peace River Area]

Lochiel maintains a 75% interest in 1,920 acres in the Dixonville area in north central Alberta. A number of gas completions in the Bluesky and Gething zones have been made in the area which has continued to be actively explored during the past year. Lochiel is presently evaluating the prospect to determine whether to drill itself or by farmout.

Bohn Lake [North Eastern Alberta]

This 28,000 acre reservation was farmed out during 1975. The farmee drilled a test to earn an interest in these lands. Although the test was dry, a large portion of the acreage remains untested and warrants further exploration.

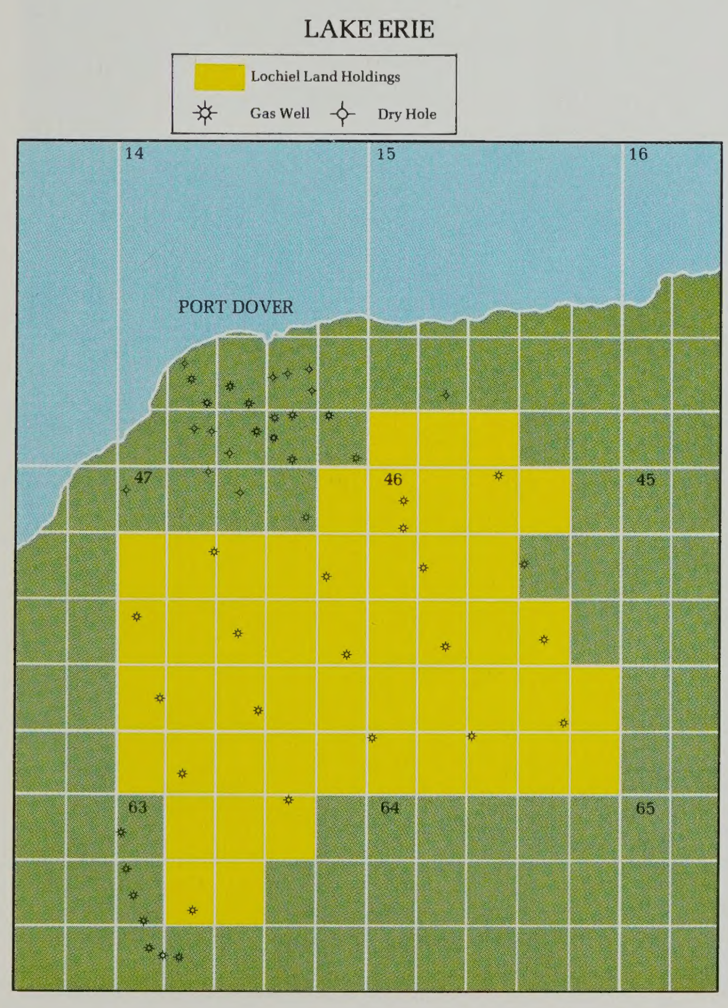
Medicine River [West Central Alberta]

Lochiel maintains a 50% interest in 320 acres in the Medicine River area which is offset by a producing Ostracod sand gas well. The well yielded in excess of 12 million cubic feet of gas and 75 feet of condensate on drillstem test, and is currently producing in excess of 7 million cubic feet of gas per day. It is anticipated that this property, which is close to existing production facilities, will be evaluated by a well in the near future.

ONTARIO

Lake Erie

The company has a 58.67% working interest in 18 offshore wells in Lake Erie. Gas from this field is sold to Union Gas at Port Dover. During the year the gas purchase contract was re-negotiated raising the price to approximately 72¢ from 39¢ per Mcf with an additional increase forthcoming after regulatory approval.



NORTH SEA

Lochiel has a one percent interest in Blocks 21/1 and 21/6 in the U.K. Sector of the North Sea, 95 miles east of Aberdeen, Scotland. The company is a participant in the Transworld Petroleum Group which has been exploring this 115,000 acre licence since 1971. The initial test on block 21/1 was completed in 1974. A 453 ft. sand section at 9,500 feet indicated an oil discovery of commercial size. Lower horizons in the well could not be tested because of mechanical difficulties.

During 1975 the group drilled two delineation wells to follow up this discovery. The first well was drilled in September 1 ¼ miles east of the discovery. This test indicated an oil column in excess of 1,500 feet, one of the thickest ever encountered in the North Sea. The well flowed crude oil on test from four selected intervals at flow rates ranging from 2,160 to 7,492 barrels of oil per day. Following completion of this well, the field was officially named the BUCHAN field.

In December 1975, a third well was drilled to define the eastern extent of the productive section encountered in the first two wells. It found an oil-saturated section in excess of 550 feet with low permeability and flowed oil at an average rate of 500 barrels per day. The lower productivity of this well resulted from subnormal porosity and permeability at this location. Another appraisal well will be drilled by the group on block 21/1 shortly.

A feasibility study to determine the most efficient manner in which the field should be produced is nearing completion. Plans for exploration of block 21/6 immediately south of block 21/1 are also nearing completion. It is expected that features found at the Buchan field may be present on the southern block.

Elsewhere in the North Sea the industry made 24 discoveries during 1975, one less than the total number in the previous five years. First production of crude oil from the U.K. sector began during the year, and government sources estimate that half of the 14 oil fields declared commercial so far will be on stream in 1976.

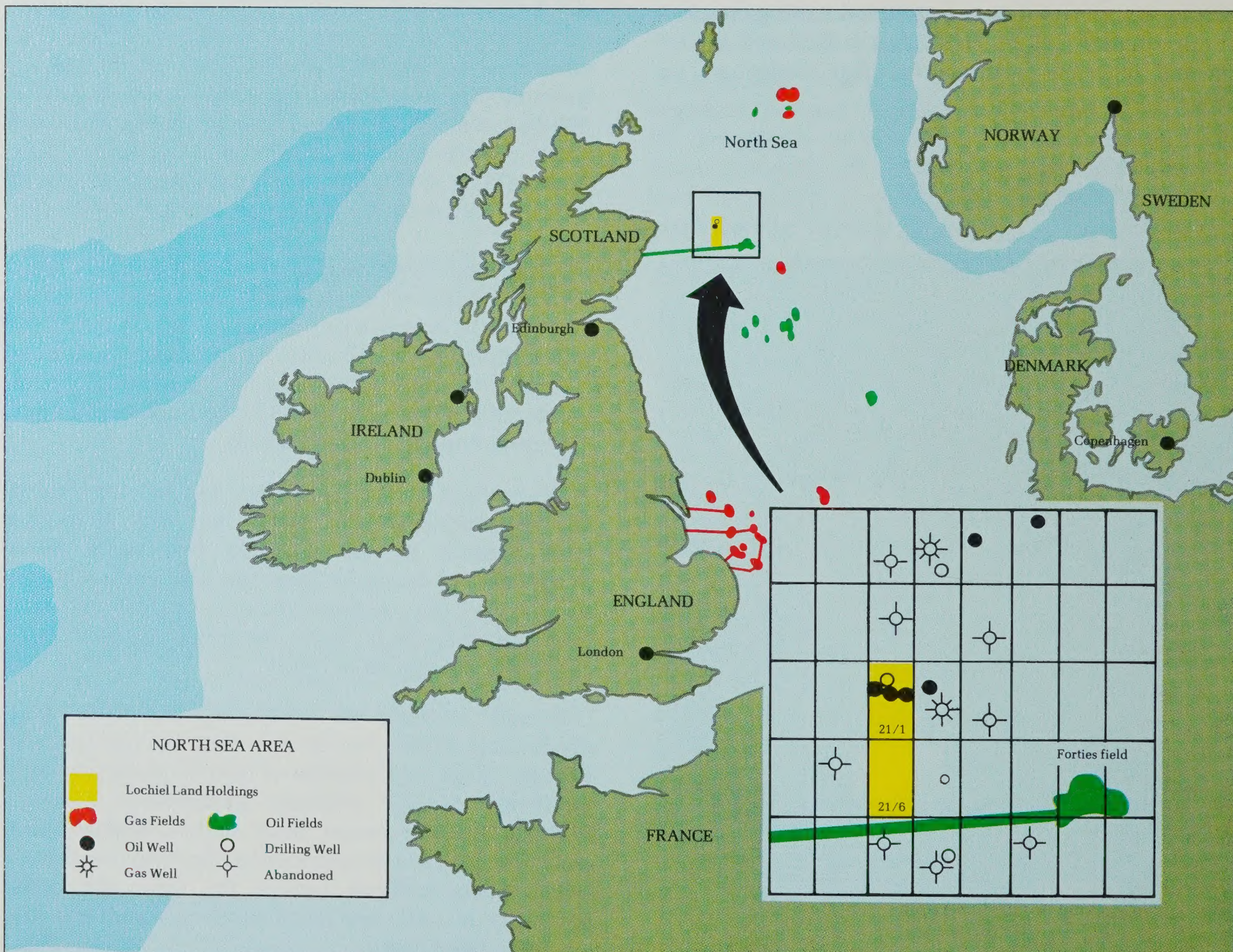
Recent changes in technology indicate that production in the North Sea can be carried out without large and expensive on-site platforms and pipelines. Mobile offshore production systems, utilizing flexible buoys from which tankers load crude oil, are now in operation in the Argyll and Auk fields. Such methods reduce the time and costs necessary to construct fixed platforms and provide marketing flexibility.

ITALY

Lochiel is a participant in a group which holds a permit containing 92,600 acres in the Italian Adriatic Sea. During 1975 the group granted a seismic option to AGIP SpA, the Italian state oil company. After conducting a detailed seismic survey at its own cost, AGIP has decided to drill a 5,000 foot test on this permit. By drilling to casing point at its own cost, AGIP will earn a 65% interest in this permit. Lochiel's remaining interest is 4%. The test commenced at the end of April.

IRELAND

Lochiel and four other Canadian companies have submitted an application for a concession in the Irish Sea. The application is under condideration by the Irish Government. A decision is expected by mid 1976.



TURKEY

After processing and interpreting the seismic survey which was conducted over the Antalya concession during 1974, the company decided to relinquish its interest. Lochiel successfully negotiated a new concession in eastern Turkey, near the Iraq border. The new concession lies in an area where there are several producing oil fields. Lochiel is currently assembling geological information on the area.

GHANA

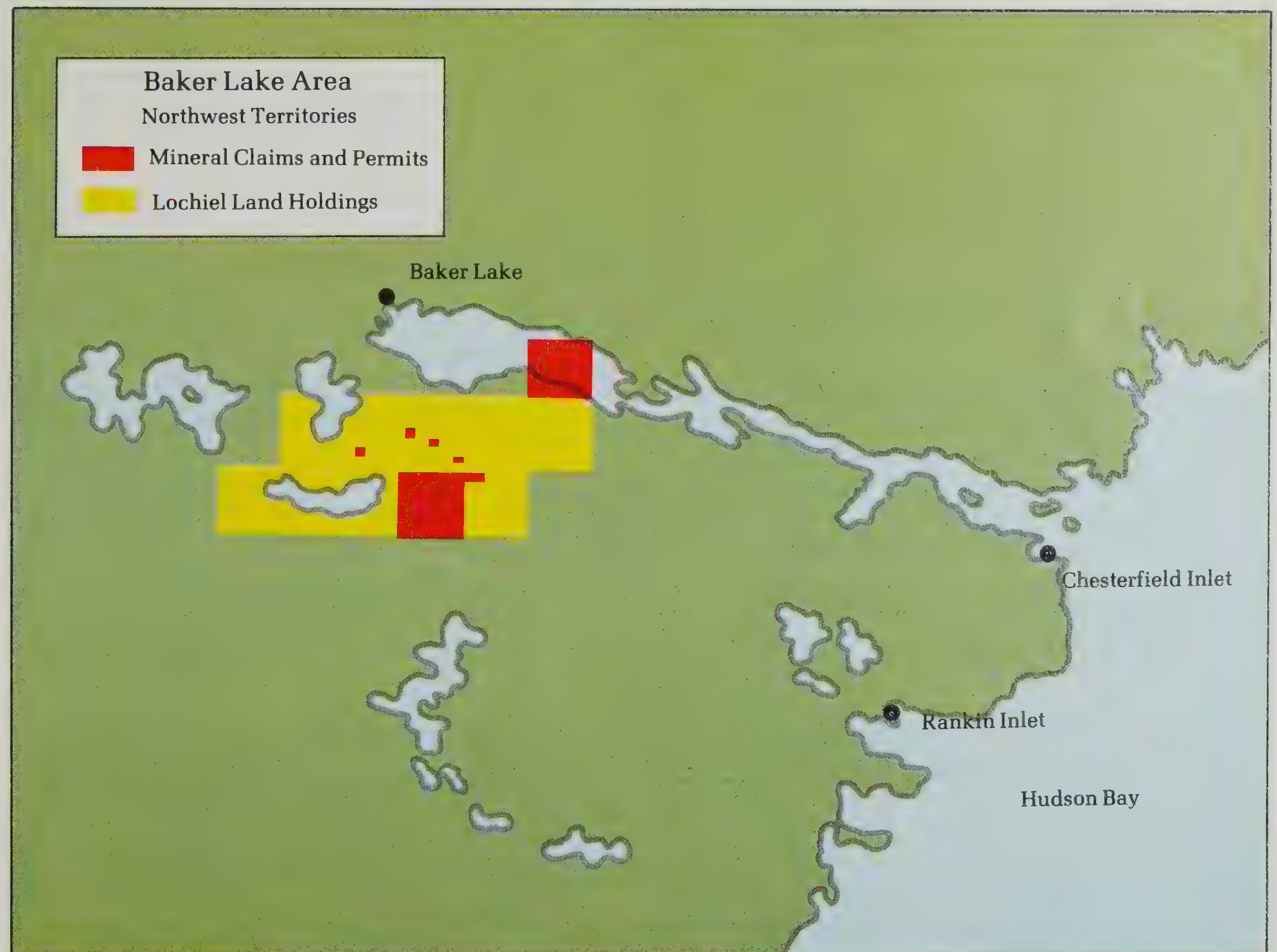
The company holds a 10 percent working interest in a 138,000 acre concession located offshore Ghana in West Africa. A detailed interpretation of the seismic survey covering the concession was completed during the year. This work delineated two structural trends. To complete the evaluation additional seismic is required. This will be obtained through a farmout, if satisfactory arrangements can be made.

MINING EXPLORATION

BAKER LAKE, N.W.T.

Lochiel maintains an 8.6% interest in mining claims and permits totalling in excess of 1.5 million acres on the west coast of Hudson Bay which has developed into a significant uranium prospect. The acreage is being explored by Cominco Ltd. under an agreement which calls for expenditures of up to $5 million by Cominco to earn a 55% interest in the project. Cominco began work in the area in mid-1975. The program consisted of geological mapping, ground geophysics, radiometrics and approximately 8,500 feet of diamond drilling, which confirmed uranium mineralization. One vertical hole intersected an average of 2.3 lbs. of uranium per ton over a 372 foot section.

A total of 195 aerial anomalies were investigated on the ground, resulting in the discovery of several new showings of uranium. Cominco has advised the participants in the venture that the program will continue during the summer months of 1976, with an estimated budget of $750,000.



FINANCIAL AND OPERATING REVIEW

Sales of oil and natural gas reached a record high of $1,041,000 during 1975, a 59% increase over 1974. The increase resulted from higher wellhead prices, but was partly offset by higher government royalties, which averaged 26% of sales during 1975 compared to 21% in the previous year.

Cash flow from operations was $432,000 a 128% increase over 1974. Cash flow per share amounted to 7.4 cents versus 3.3 cents in 1974. Operating income rose to $151,791 from a loss of $16,000 in 1974.

During the year the company negotiated a farmout on 100%-owned land at Garrington in west central Alberta, under which the farmee drilled a successful oil and gas well. Lochiel received a $200,000 production prepayment which is expected to be earned out of production in early 1977, after which time the company' share will be 50 % of the production proceeds.

Lochiel has negotiated a $1.8 million line of credit with its bankers. This will provide the company with almost $1 million to finance ongoing work and to initiate new exploration and development programs in Alberta, aimed at increasing production and cash flow in the immediate future.

A firm of engineering consultants has evaluated the company's oil and natural gas reserves in mainland Canada as at February 1, 1976, as follows:

Reserves before Royalties	Natural Gas [MCF]	Crude Oil & NGL's [Barrels]	Sulphur [Long Tons]
Proved	16,547,000	577,815	6,698
Probable	2,685,000	623,192	—
Possible	23,301,000	—	—
	42,533,000	1,201,007	6,698

Lochiel Exploration Ltd.

Consolidated Statement of Income

For the year ended January 31, 1976

	1976	1975
REVENUE		
Oil and gas sales	$1,041,315	$ 655,296
Less royalties and mineral taxes	264,286	136,542
Net sales	777,029	518,754
Other income	1,996	13,143
	779,025	531,897
EXPENSES		
Operating — lifting costs	144,622	119,183
— lease rentals and taxes	27,875	23,429
General and administrative	96,715	99,536
Interest on long-term debt	77,944	100,691
	347,156	342,839
CASH FLOW FROM OPERATIONS	431,869	189,058
NON-CASH CHARGES (Note 1)		
Depletion	185,868	58,840
Depreciation	63,285	18,820
Deferred income taxes	30,925	33,084
Financing costs	—	94,406
	280,078	205,150
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	151,791	(16,092)
EXTRAORDINARY ITEM (Note 2)		
Provision for loss due to decline in market value of investments	257,158	—
LOSS FOR THE YEAR	$ (105,367)	$ (16,092)
Earnings (loss) per share (based on average number of shares outstanding during the year)		
Before extraordinary item	2.6¢	(0.3¢)
Extraordinary item	(4.4¢)	—
Loss	(1.8¢)	(0.3¢)

Consolidated Statement of Deficit

For the year ended January 31, 1976

	1976	1975
Deficit at beginning of year	$1,016,436	$1,000,344
Loss for the year	(105,376)	(16,092)
Deficit at end of year	$1,121,803	$1,016,436

Lochiel Exploration Ltd.

Consolidated Balance Sheet

as at January 31, 1976

Assets	1976	1975
CURRENT		
Cash and term deposits	$ —	$ 66,402
Accounts receivable — trade	221,377	74,763
— affiliated company	—	38,698
Provincial royalty tax rebate	129,715	58,073
Prepaid expenses	3,610	3,741
	354,702	241,677
INVESTMENTS AND LONG-TERM RECEIVABLES (Note 2)	614,951	828,446
PROPERTY, PLANT AND EQUIPMENT (Notes 1 & 3)		
At cost	5,833,338	5,274,191
Accumulated depreciation and depletion	874,263	625,110
	4,959,075	4,649,081
	$5,928,728	$5,719,204

Liabilities	1976	1975
CURRENT		
Bank advances	$ 30,867	$ —
Accounts payable	136,852	88,594
	167,719	88,594
PREPAID PRODUCTION REVENUE	200,000	—
LONG-TERM DEBT (Note 4)		
Production loans, secured	779,686	873,987
DEFERRED INCOME TAXES (Note 1)	304,660	202,093
Total liabilities	1,452,065	1,164,674

Shareholders' Equity

CAPITAL STOCK (Note 5)		
Authorized		
10,000,000 shares of no par value		
Issued		
5,828,126 shares (1975 - 5,803,126)	5,598,466	5,570,966
DEFICIT	(1,121,803)	(1,016,436)
	4,476,663	4,554,530
	$5,928,728	$5,719,204

Signed on behalf of the Board

N. W. Taylor, Director
W. A. Work, Director

Lochiel Exploration Ltd.

Consolidated Statement of Changes in Financial Position

For the year ended January 31, 1976

	1976	1975
SOURCES OF FUNDS		
Cash flow from operations	$ 431,869	$ 189,058
Issuance of capital stock (Note 5)	27,500	241,140
Net proceeds from farmouts	53,304	143,990
Increase in production loans	326,000	250,000
Provincial royalty tax rebate	71,642	58,073
Prepaid production revenue	200,000	—
	1,110,315	882,261
USES OF FUNDS		
Property, plant and equipment	612,451	341,329
Repayment of production loans	420,301	310,197
Investments and long-term receivables (Note 2)	43,663	243,462
	1,076,415	894,988
INCREASE (DECREASE) IN WORKING CAPITAL	33,900	(12,727)
WORKING CAPITAL, BEGINNING OF YEAR	153,083	165,810
WORKING CAPITAL, END OF YEAR	$ 186,983	$ 153,083

Lochiel Exploration Ltd.

Notes to Consolidated Financial Statements

For the year ended January 31, 1976

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Lochiel Exploration (U.K.) Limited (formerly Taiga Offshore Limited) and Lochiel Oil and Gas (1972) Ltd. (presently inactive).

(b) Exploration and Development Costs

The Company follows the full cost method of accounting. Under this concept, all costs relating to the exploration for and the development of oil and gas reserves, including related overhead costs, are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

(c) Depletion and Depreciation

Depletion of exploration and development costs and depreciation of production equipment related to Canadian operations, except frontier areas, are computed under the unit of production method based on estimated proven oil and gas reserves. Costs related to Canadian frontier areas and foreign areas are carried in separate cost centres on which amortization is deferred pending the outcome of exploration.

(d) Deferred Income Taxes

The company follows the tax allocation method of recording income taxes for all timing differences between accounting income and taxable income. Provincial government royalty refunds are recorded as a reduction of the provision for deferred income taxes.

2. Investments and Long-term Receivables

	1976	1975
Investment and advances — Petromines Ltd.	$203,421	$337,027
Investment in shares of other companies	60,200	135,331
Notes receivable from employees, at cost	326,980	326,980
Refundable deposits, at cost	24,350	29,108
	$614,951	$828,446

The company holds 903,281 shares (approx. 25%) of the issued capital of Petromines Limited. Due to declining market values of these shares and shares of other companies, a valuation allowance of $257,158 was provided to reduce the carrying values of these assets to market.

Notes receivable from employees aggregating $326,980 have been accepted as consideration for shares purchased under employee stock purchase plans. The notes are non-interest bearing and mature between 1980 and 1984.

3. Property, Plant and Equipment

	1976		1975	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties, including exploration and development	$4,850,648	$594,135	$4,386,841	$408,267
Production equipment	973,644	274,375	878,304	211,913
Other equipment	9,046	5,753	9,046	4,930
	$5,833,338	$874,263	$5,274,191	$625,110

The current market values of exploration acreage and oil and gas reserves are not reflected in the accounts.

4. Long-Term Debt

The bank production loans are evidenced by demand promissory notes and are secured by petroleum and natural gas properties. The loans are repayable out of future production proceeds and accordingly, are not expected to require the use of existing working capital.

5. Capital Stock

During the year 25,000 shares were issued for a consideration of $27,500 in respect of an interest in oil and gas properties. A further 10,000 shares are reserved for issue in respect of this property.

As at January 31, 1976 10,000 shares were reserved for issue to an employee as an incentive stock option. This option was exercised on March 30, 1976. Under a Share Purchase Plan 10,000 shares are reserved for issuance in the future.

6. Contingent Liabilities

The company has issued non-interest bearing promissory notes totalling $148,000 in favour of various government authorities. These notes are lodged as security for committments on exploratory permits.

In 1973 the company, in consideration for the issue of 170,000 shares, acquired certain property interests and all the issued shares of Taiga Offshore Limited (now Lochiel Exploration (U.K.) Limited). The company guaranteed by letter of credit furnished by its banker a bank loan of $225,000 on behalf of the vendor of the properties. The 170,000 shares were held in escrow as security for this guarantee. The vendor has defaulted and the company honoured its guarantee of $225,000 in January 1976 subject to the bank realizing on its security. The 170,000 shares held by the bank may be sold by the bank provided the price per share is $1.32 or more so the proceeds of the 170,000 shares or less would retire the bank loan completely. Any shares not sold by January 31, 1977 are to be surrendered for cancellation and the balance of the bank loan, if any, paid. Payment to the bank, if any is required to retire this loan, will be treated as a reduction of shareholders equity.

7. Remuneration of Officers and Directors

The aggregate direct remuneration paid to directors and officers of the company during the year is as follows:

	Number	Amount
Directors	6	$ 3,500
Officers, of whom three were also directors	4	$97,080

Auditors' Report

To the Shareholders of
Lochiel Exploration Ltd.

We have examined the consolidated balance sheet of Lochiel Exploration Ltd. as at January 31, 1976 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 25, 1976

Touche Ross & Co.
Chartered Accountants.

Lochiel Exploration Ltd.

HEAD OFFICE

550 - 6th Ave. S.W., Calgary, Alberta T2P 0S2

REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA
311 - 8th Ave. S.W., Calgary, Alberta and
366 Bay Street, Toronto, Ontario

BANKERS

THE TORONTO-DOMINION BANK, Calgary Place, Calgary, Alberta
BANK OF MONTREAL, 140 - 8th Ave. S.W., Calgary, Alberta

AUDITORS

TOUCHE ROSS & CO.
600 - 6th Ave. S.W., Calgary, Alberta

SOLICITORS

MAJOR CARON & COMPANY
1801, 715 - 5th Ave. S.W., Calgary, Alberta

SHARES LISTED (Symbol LHX)

TORONTO STOCK EXCHANGE
ALBERTA STOCK EXCHANGE

DIRECTORS

MERVYN S. DEVONSHIRE
Partner, Devonshire, Munro & Co., Chartered Accountants, Calgary, Alberta

ROLAND B. DODWELL
Financial Consultant, Oakville, Ontario

WILLIAM J. MAJOR, Q.C.
Partner, Major Caron & Company, Barristers & Solicitors, Calgary, Alberta

RALPH T. SCURFIELD
President, Nu-West Development Corporation Ltd., Calgary, Alberta

NICHOLAS W. TAYLOR
President of the Company, Calgary, Alberta

WILLIAM A. WORK
Vice President of the Company, Calgary, Alberta

OFFICERS

NICHOLAS W. TAYLOR, President

WILLIAM A. WORK, Vice President

MERVYN S. DEVONSHIRE, Treasurer

ALBERT H. PFEFFER, Controller & Corporate Secretary

LOCHIEL EXPLORATION LTD.
ANNUAL REPORT
1975

LITHOGRAPHED IN CANADA